

ORDER NO. 1459

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Petition of the United States Postal Service
for the Initiation of a Proceeding to Consider Proposed
Changes in Analytical Principles (Proposals Six and Seven)

Docket No. RM2012-7

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS SIX AND SEVEN)

(Issued September 5, 2012)

On September 4, 2012, the Postal Service filed a petition pursuant to 39 CFR § 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting.¹

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six and Seven), September 4, 2012 (Petition).

Proposal Six. Use of Foreign Postal Settlement System as Sole Source for Reporting of Inbound International Revenue, Pieces, and Weights

The Postal Service proposes to use the Foreign Postal Settlement (FPS) system as the sole source for the International Cost and Revenue Analysis's (ICRA) reporting of Inbound International revenue, pieces, and weight. The Postal Service states that using the FPS data source for the ICRA's reporting of Inbound International revenue, pieces, and weight would improve the consistency among the ICRA, RPW, and financial statements, and that it would eliminate the need to make separate Booked Inbound International revenue calculations² in the ICRA. Petition at 4. Using FPS would also eliminate the need for the ICRA to calculate inbound volumes based on weight data from the St. Louis Accounting Service Center (ASC) coupled with estimated items per kilogram data from System for International Revenue and Volume Inbound (SIRVI) sampling system. However, the Postal Service also states that this proposal does not entirely eliminate the need for both the Booked and Imputed versions because it does not address the Outbound International calculations. *Id.*

The Postal Service has filed as library reference USPS-LR-RM2012-7-NP1 a version of USPS-FY11-NP2 revised to incorporate this proposal. This library reference is non-public. *Id.* at 2. The Postal Service states that USPS-LR-RM2012-7-NP1 displays two impacts: (1) a comparison between the FY 2011 Imputed version as filed in USPS-FY11-NP2 and the proposed methodology; and (2) a comparison between the FY 2011 Booked version as filed in USPS-FY11-NP2 and the proposed methodology. In the two comparisons, pieces and weight based on FPS increase 2.9 percent and 2.0 percent, respectively, over the USPS-FY11-NP2 amounts. In the Imputed versus proposed comparison, revenue decreases 0.3 percent and volume variable costs decrease 1.2 percent due to changes in the distribution of volumes and weights by

² The Postal Service has been producing two versions of the ICRA, an Imputed version that relies on ICRA model calculations and a Booked version that forces the ICRA model revenue calculations to agree with other financial statements.

country under FPS. In the Booked versus proposed comparison, revenue decreases 0.8 percent and volume variable costs are essentially unchanged. *Id.* at 4-5.

Proposal Seven. Methodology Change to Replace Parcel Densities in the Transportation Cost System Highway Subsystem

The Postal Service proposes a methodology change to replace the parcel densities in the Transportation Cost System (TRACS) Highway Subsystem. *Id.* at 6. These densities are used to develop distribution keys to assign volume-variable costs in Cost Segment 8 (Vehicle Service Driver costs) and Cost Segment 14 (purchased transportation costs) to postal products. The Postal Service states that currently, separate study-based estimates of mailpiece densities by mail category and shape for letters, flats, and parcels are required to convert sampled weight information to cubic feet. Under the proposed methodology, the study-based parcel densities would be replaced with parcel dimensional data now regularly captured in TRACS-Highway tests. *Id.*

The Postal Service states that beginning with Quarter 1 of FY 2012, the TRACS-Highway Subsystem began utilizing actual, measured length, width and height information for parcel-shaped pieces. *Id.* Attachment at 1. As a result, the cubic foot component of the cubic foot mile distribution key for parcels can be determined directly from the product of the three dimensions. These direct measurements obviate the need for Density-Study information and periodic study updates for parcels. The Postal Service believes that this methodology is more reliable since cubic feet information is continuously updated automatically across sampling periods. *Id.* For the subset of parcels identified as irregular in shape, the Origin-Destination System and Revenue, Pieces, and Weight based factor of 0.785 would be applied. For all mail shapes, no other changes would be required or made to the current TRACS-Highway processing system and methodology, including the development of the miles component of the cubic foot-mile distribution key. *Id.* at 1-2.

The Postal Service states that there is a small proportion of sampled parcels for which useable dimensional information is unavailable (approximately five percent of sampled parcels). For these parcels a smoothed, composite, four-quarter density ratio would be developed by major mail category to convert sampled weight measures to cubic feet measures. The Postal Service states that a smoothed, ratio-based density measure helps to adjust for seasonal swings as well as to reduce sampling variation associated with the smaller mail categories. *Id.* at 2.

The Postal Service states that Media and Library Mail is the product group most affected by the proposed methodology change. That product group would receive a change in cost per piece of – \$0.021, a relative change of – 2 percent. Parcel Post would receive the next largest change in cost per piece at – \$ 0.010, with a relative change of 0 percent. All other product groups would have changes in cost per piece of less than \$0.010. Petition at 7.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six and Seven), filed September 4, 2012, is granted.
2. The Commission establishes Docket No. RM2012-7 to consider the matters raised by the Postal Service's Petition.
3. Interested persons may submit comments on Proposals Six and Seven no later than October 5, 2012.
4. Reply comments are due no later than October 15, 2012.
5. Derrick Dennis is appointed to serve as the Public Representative to represent the interests of the general public in this proceeding.

6. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary